

## Opportunities in the Bulgarian Aviation Sector – August 2005

### Summary

The total market for aviation, runway systems and air traffic control equipment and services for 2005 is estimated at approximately \$125.85 million. This market is supplied almost entirely by imports. U.S. firms, over the three-year period 2003 through 2005, have captured between 15 and 20 percent of this market.

Growth in this market has been influenced by the ICAO and IATA requirements for sustainable development, quality improvements and compliance to international standards.

The end user market includes 5 international airports, the Air Traffic Services Authority, the major international air carriers and services companies licensed to provide ground-handling activities.

Major competitors on the Bulgarian aviation equipment and services market are German, Italian, French, Finnish and Irish companies.

The Bulgarian market is receptive to U.S. aviation and air traffic control equipment offering excellent technology including: improved security, safety and quality features. Besides the problem that much of the financing is through various tied aid programs, there are no trade barriers to the importation of aviation and air traffic control equipment in Bulgaria.

### A. Market Trends and Best Prospects

The demand for aviation equipment and related services is driven by the government policy for upgrading and rebuilding of the existing facilities and bringing them in compliance with the ICAO requirements and standards. There are two factors influencing the development trend:

- The Bulgarian Ministry of Transport and Communications plan for concessioning of the two Black Sea airports Varna and Bourgas and
- The financing programs provided by the European Investment Bank (EIB), the EU ISPA program, the Kuwait Fund for Arab Economic Development and the Bulgarian state budget.

Currently Bulgaria has three major government-owned international airports in Sofia, Burgas and Varna, and two smaller international airports in Plovdiv and Gorna Orjahovitza.

The annual traffic for Sofia airport for 2004 was 28,700 aircraft movements, 1.6 million passengers, for Bourgas airport - 11,199 aircraft movements and 1.4 million passengers, for Varna airport – 11,277 aircraft movements and 1.3 million passengers and for Plovdiv airport 1,277 aircraft movements and 37,700 passengers. The upward trend for number of aircraft movements and number of passengers at the major Bulgarian international airports is expected to remain the same for calendar 2005 as well.

Air Traffic Services Authority (ATSA) is a Bulgarian state owned company. It was a former agency within the Ministry of Transport and Communications. ATSA is responsible for the air traffic control operations without limitation of the flight level. At present there are two flight information regions (FIR) -- one is in Sofia and the second one in Varna.

ATSA is member of Eurocontrol since 1997 and in this role it is responsible for developing and coordinating plans for the creation of a commonly accepted and supported long-term Air Traffic Management (ATM) strategy. The European ATC Harmonization and Integration Program (EATCHIP) is an ongoing process of updating and harmonizing the various air traffic control systems in Europe. In view of this market trend, in early 2000 European Investment Bank (EIB) financed the project for a new national air traffic control center.

The most common aircraft serving Bulgaria's major airports are Boeing 737's, MD-81,82 and 83, narrow-body Airbuses, and ATR turboprops, with some Boeing 767's going into Bourgas and Varna, as well as older Russian aircraft such as Tupolev 154, Tupolev 134, Antonov 24, Antonov 12, Ilyushin 18, and Yakolev 40 aircraft.

## 1. Market Profile

This report covers airport and air traffic control equipment and services only.

### a. Sofia Airport

For a period of 5 years starting year 2000, Sofia Airport is undergoing reconstruction and modernization.

In 2000 it financed completion of a face-lift and renovation of the international departure and arrival terminals. By the end of 2005 its new master plan envisages completion of:

1.a. Lot B1 construction of a new passenger terminal building, adjacent to the old one according to IATA standards, construction of a parking garage for 800 parking spaces; 7-8 bridges, apron extension and de-icing platform. Financing for this project is provided by the European Investment Bank (EIB) (60 million Euro), ISPA cohesion funds (50 million Euro), and the Bulgarian state budget (50 million Euro).

Current construction plans are for the new terminal to have a capacity of 2.5 million passengers/year (2,500 passengers/hour at peak hours), a floor area of 26,000 square meters, 40 check-in desks, new aprons covering 38,000 square meters, and road access and 4-level parking space of approximately 18,000 square meters for approximately 829 cars.

2.a. Lot B2 extension of the existing runway to reach 3600 meters, ICAO category III approach, procurement of fire fighting and rescue station and de-icing platform. Financing for Lot B2 is provided by the Kuwait Fund for Arab Economic Development (40 million Euro).

Current plans envisage construction of a new runway 210 meters far from the existing one with overall length 3600 meters and width 45 meters. There will also be construction of additional 20,000 meters taxiways. Aircraft of a total weight of 275 tons will be able to land on the new

runway. The current single 2,800-meter runway will be extended 540 meters to the east to reach a total length of 3,340 meters. Extension will be achieved by means of a bridge across the Iskar river eastwards. The existing runway will be completely resurfaced with specifications of 45 x 3600 cm and PCN 90. It will serve as a parallel runway to the new one.

### 3.a. Sofia Airport Cargo Terminal Construction

The Sofia airport master plan envisions construction of a new cargo terminal as well as the expansion of the existing cargo terminal. The preliminary plans consist of two phases. The first phase is a feasibility study of the project and construction of the new cargo terminal to handle approximately 25,000 tons of cargo annually. The second phase is completion of the reconstruction of the existing cargo terminal to increase its capacity to 25,000 tons. The total capacity of the two cargo terminals is estimated at approximately 50,000 tons annually. The estimated value of the project is \$10 million. The project does not yet have financing but the Ministry of Transport and Communications and Sofia Airport management seek to identify a strategic partner, joint-venture partner and/or other alternatives for financing this project.

### b. Bourgas and Varna Airports

In 2004 the Bulgarian Ministry of Transport and Communications opened a tender for selection of a concessionaire for both Black Sea airports – Varna and Bourgas. Copenhagen Airport was selected to be the winner and was assigned a 35-year concession. By the end of 2005 the final decision is yet to undergo court disputes.

Ministry of Transport preliminary estimates for modernization of both airports amount to EURO 134 million of which: EURO 61 million for terminals modernization, EURO 53 million for runway upgrade and modernization and EURO 20 million for improvement of safety and security.

### d. Gorna Orjahovitza Airport

The Ministry of Transport and Communications plans to upgrade the Gorna Orjahovitza airport to serve mainly as cargo airport. The Ministry of Transport is looking at a feasibility study and master plan for upgrading this airport after settling all ownership disputes with the Ministry of Defense.

### e. Plovdiv Airport

Ministry of Transport plans to upgrade Plovdiv airport after settling some previous real estate ownership disputes. It plans to offer the airport as a concession to a large strategic investor. There will be a need for a feasibility study, master plan and agreement on granting a concession for the whole airport or some of its activities.

### f. Air Traffic Control

In 2001 the Bulgarian Air Traffic Services Authority received a 60 M Euro loan from the European Investment Bank (EIB) for construction of the new National Air Traffic Control Center in Sofia as part of a joint system for air traffic control and management of the Southeastern

European countries' aerospace above 6,000 meters. The international tender was won by the Italian company Alenia. It is expected that there will be a demand for some additional equipment and related services for upgrade of the newly commissioned system as well as for additional equipment for improvement of the disaster and emergency management system capacity of Bulgaria.

## 2. Statistical data

	2003	2004	2005	Projected Average Annual Growth Rate for the next 2 years
Total Market	83.9	100.68	125.85	20-25%
Local Production	2.0	3.0	5.0	2-4%
Export Market	0.6	1.0	1.3	1-2%
Import Market	82.5	98.68	122.15	20-25%
Import from the US	12.6	18.2	25.2	15-20%

The largest source of Bulgaria's imports in 2003 – 2005 timeframe were: Germany with 25 percent, followed by Italy (20 percent), the United States (15 percent), France (12 percent), Finland (11 percent) and Ireland (11 percent).

## 3. Best Sales Prospects

Over the short and medium term, demand is estimated to be highest for airport and air traffic control equipment and related services, for services related to concessioning of airport activities, to cargo handling outsourcing and management, runway systems improvement, and safety and security equipment.

### B. Competitive Situation

The major competitive factors for securing contracts in the aviation sector in Bulgaria are good reputation, sound financial references, competitive pricing and a willingness to build long-term strategic partnership. U.S. firms should be prepared to participate in government tenders and/or government procurement bids within maximum 45 days period after the written procurement notification.

Some procurements may fall under the Ordinance for the Conditions and the Order for Assignment of Public Procurement Orders connected with the Defense and the Security of the Country, promulgated in State Gazette 119/27 of 2002. This Ordinance allows for organizing of tenders on the basis of invitations only, which are sent out to a list of companies with known international experience and references and track records based on long-term historical contacts with the beneficiary institution.

In other cases the Government Procurement Law, Article 118 allows for the some companies to be excluded from the list of bidders as specified in article 19.2.14.

### 1. Domestic Production

Airport, runway systems and air traffic control equipment manufactured in Bulgaria accounted for only 4 per cent of the total market in 2005. It is estimated that Bulgarian companies or foreign subsidiaries could meet about 3-5 per cent of total demand by manufacturing and/or assembling airport and air traffic equipment locally and by outsourcing to small local private companies some of the related services. None of the Bulgarian companies are presently serious competitors to U.S. firms, but they could be considered viable and good partners in providing the accompanying after sales services, in designing, manufacturing and assembling subcomponents.

### 2. U.S. Market Position

In 2003 through 2005 the U.S. share of Bulgaria's imports of airport equipment and air traffic control equipment was approximately 15 – 17 percent. U.S. firms are expected to increase their exports over the next 2 - 5 years by 15 – 20 percent. Thus far, U.S. exports have been primarily radar and navigational equipment, supplied by such firms as Hughes/Raytheon (civil aviation), Harris (military aviation) and Lockheed Martin (military aviation).

### 3. 3rd Country Imports

Over 88 percent of the airport, runway systems and air traffic control equipment imported in Bulgaria in 2003 and 2005 is imported from third countries. Third country imports are expected to grow over the next two years at an average rate between 20 - 25%.

The largest source of Bulgaria's imports of airport equipment traditionally comes from Germany - 25 percent, followed by Italy (20 percent), the United States (15 percent), France (12 percent), Finland (11 percent) and Ireland (11 percent).

Major German suppliers include the firms Siemens-Cardion and Thales which is supplying lightning systems and radio-navigation and communication systems, Gemetronic, which is supplying meteorological equipment and Mannesman, which is supplying the passenger and cargo ground transportation equipment. The Italian firms include Alenia, Selenia, and Alenia Marconi Systems are suppliers of radio and navigational aid equipment. The French firms Airsys ATM and Thomson are supplying radar, radio navigation and communication equipment. The French company Teleflex is supplying the flex bands for transportation of passenger and luggage and cargo. The Finish company Vaisala is a supplier of meteorological equipment. The Irish firm ESCO is supplier of radar equipment. Other suppliers include DaimlerChrysler and Park Air Electronics (UK).

### C. End user analysis

The international airports are the most important users of airport and air traffic control equipment and related services. However, two smaller airports that have been commissioned and licensed in 2005 in proximity to the Black Sea resort Primorsko and in the second one close to Sofia are expected to ~~make~~ some minor basic investments estimated at \$750,000. Owner and manager of these domestic airports is the investment holding Albena AD and they are designated to provide tourism related flight and logistic services to incoming international tourists mainly during the summer season June through October.

Procurements by newly spun off airport service providers are expected to increase in number as airport services are increasingly outsourced. The new Law on Aviation allows for private non-aviation operators to be licensed by the Civil Aviation Authority (CAA) of the Ministry of Transport and Communications to perform airport ground handling and support services.

Best estimates are that there will be between ten and fifteen major customers. The biggest customers will be Sofia, Burgas and Varna airports, and the driving force behind their needs are the Sofia airport expansion plans and the concession program for both Varna and Bourgas airports.

The second most important users of airport equipment are the major international air carriers such as DHL, UPS, FEDEX, Lufthansa, Austrian, Lauda, Air France, British Air, Malev, Tarom, Olympic, Turkish, Swissair, Alitalia, Czech, and LOT.

Foreign and Bulgarian air carriers use equipment and services provided by the airports. The airlines' greatest needs are for better and faster passenger and luggage check-in, handling, transportation to and from the airport, professional catering services, and safer and faster fuel supply. To meet these needs requires new and modern equipment, technology and know-how.

#### D. Market access

##### 1. Import Climate

No trade barriers exist for the importation or marketing of U.S. airport equipment. It is exempt of duties regardless of the origin.

However, customs tariffs for a large number of other European Union products are much lower than those for equivalent U.S. products. A value-added tax (VAT) of 20 percent is also assessed on all imports at the time of customs clearance.

Electrical and electronic equipment and/or parts must conform to ICAO and EU standards. Other airport equipment is governed by standards that are mandated and controlled by the Bulgarian Committee of Standardization and Metrology. These include standards for the fire fighting equipment, for the fuel and oil supply and for storage equipment.

Under the Government Procurement Law, foreign companies are allowed to participate in tenders, but the performance must be carried out by a company registered to do business in Bulgaria under the Bulgarian Commercial Code or by a company which is representing the foreign entity and which is registered in Bulgaria under the Bulgarian Commercial Code. Registration can be as a branch, subsidiary or independent company.

Some international financing requirements such as the European Union's ISPA funds may be tied aid, which may restrict U.S. companies from participating in a tender.

## 2. Distribution/Business Practices

Distribution of airport, runway systems and air traffic control equipment after customs clearance in Bulgaria is through an agent or distributor, or direct to the end-user. There are no intermediate wholesalers. U.S. exporters that do not have their own office in Bulgaria should consider appointing an agent or distributor with good knowledge of the market and its specifics, who has worked in the industry sector, and who has good contacts among local industry and key decision-making authorities.

However, to best expand their customer base it would be preferable to have a representative office in Bulgaria. U.S. companies interested in selling their equipment, technologies and services are encouraged to look for business partners in Bulgaria that are well established in both public and private sector markets, with good contacts at the ministry, municipality and airport authorities level.

## 3. Financing

Initially, U.S. exporters may consider requiring advance payment by bank transfer or using letters of credit in export transactions to Bulgaria. After establishing commercial relations with a company in Bulgaria, a bank guarantee, documents against payment or even open credit might be possible.

A letter of credit backed by a bank guarantee obtainable by the Bulgarian importer is a preferred means for U.S. companies to be paid. The Bulgarian government is generally in a better position to pay for imports of airport equipment. U.S. exporters should contact the Export-Import Bank of the United States, which offers guarantees for sales to private companies, if backed by a bank guarantee, or to the Bulgarian government if backed by a sovereign guarantee, municipal government guarantee or equivalent.

The Ministry of Transport and Communications and the airport authorities allocate money for reinvestment from their budgets and from international financial institutions. Procurement is based either on government procurement orders or open international tenders. In addition, the Air Traffic Services Authority, as a member of EUROCONTROL, receives financing from the European Investment Bank (EIB).

Another source for project financing is the European Union's Cohesion Fund called ISPA (Instrument for Structural Pre-accession). EU Cohesion Funds are restricted to companies in the E.U. However, American companies may still be able to participate in tenders financed by ISPA funds if they bid through their European branches, subsidiaries and partners.

## 4. Trade Promotion Opportunities

There are no specialized aviation-related trade shows in Bulgaria. The defense industry exhibition Hemus, held biannually at the Fair Grounds in Plovdiv in April or May includes airport and air traffic related equipment and the annual International Technical Fair held each autumn in Plovdiv usually has participation by companies displaying products such as transport equipment, signaling, traffic control equipment and special airport vehicles. The Air Show at Graf Ignatievo airport that takes place beginning of September is trying to establish a good tradition in putting an emphasis on aviation equipment.

All major airport managers visit the Farnborough and Paris air shows. They may also attend the annual meeting of the American Association of Airport Executives (AAAE). The next meeting, called the "Central Europe/U.S. Airport Management and Infrastructure Workshop/Trade Show," will take place November 6-9, 2005 in Budapest, Hungary. U.S. firms willing to attend this or other AAAE regional events should contact the organizers at:

The American Association of Airport Executives (AAAE)  
Spencer Dickerson  
601 Madison Street, 4th Floor  
Alexandria, VA 22314  
phone 703/824-0500, ext. 130  
fax 703/820-1395  
E-mail: [sdickerson@airportnet.org](mailto:sdickerson@airportnet.org)

#### 5. U.S. Commercial Service contact information

Further information and information on market entry strategies is available from the U.S. Commercial Service by contacting:

Uliana Kanelli, Commercial Specialist

[Uliana.Kanelli@mail.doc.gov](mailto:Uliana.Kanelli@mail.doc.gov)

<http://www.export.gov/bulgaria>